

UNITED STATES DEPARTMENT OF AGRICULTURE
Extension Service
Washington 25, D. C.



A SUGGESTED OUTLINE FOR
TEACHING PRINCIPLES OF RETAIL PRICING
(Fresh Fruits and Vegetables)

Objective of meeting

To give a clear understanding of what is involved and how the selling price of fresh fruits and vegetables may be determined.

Teaching materials

Pencils and paper
Blackboard, etc.
Pricing devices -- slide rules or wheels
Current price list showing wholesale prices

References

- 1/ Chapter 8, How to Make Money Selling Fresh Fruits and Vegetables - The Progressive Grocer
- 2/ Sales and Margins by Commodities - The Progressive Grocer (A study of grocery, meat, dairy, and produce volume of seven super markets over a 12-week period)
- 3/ Figuring Prices Correctly, Merchants Service, The National Cash Register Company, Dayton, Ohio.

Preparation suggestions

1. Know the wholesale market situation - Make it a point to be familiar with wholesale prices. Have latest price list on hand.
2. Be familiar with retail prices. Have the latest grocery ads on hand to check specials.
3. Be apprised of local pay scales so that figures relating to labor expense will be in line.
4. Read reference material.
 - a. Have a general idea of the relationships of percent of store sales, percent of store margin, margin (gross profit) percent of sales. (See reference 2/)

I. Introduction

Business mortality in the retail trades has always been extremely high, both in actual numbers of failures and in a percentage computation. The U. S. Department of Commerce has determined that most of these failures result from the faults of those failing. For instance, the optimist who enters the field lacking sufficient capital accounts for 34.9% of all business failures. It is the incompetent business manager who is responsible for another 34.5% of total business failures. Actual competition is the cause of only 3% of total business failures.

Unrealistic individuals who conceive of retailing as the mere selling of goods for more than they cost are actually investing in business failure. The same reasoning may be applied to those who feel that the handling of necessities, such as food or clothing, is a guarantee of success, or to those who presume, after glancing at prices, to say -- "anybody can make money in business."

II. Factors in Pricing

Expenses

Waste and unseen losses

Net profit desired

Cost of merchandise

Turnover

Demand

Season

Location of store

Competition

III. The Sale is King -- Fix margins on the selling price

A. Here's Why:

1. Neither margin nor profit is made until after sale is made.
2. Other business figures based on sales -- all figures should be uniformly determined.
3. Selling expenses fixed in relation to sales.

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4. Taxes are based on sales.
5. Total sales figures easier to obtain.
6. Profit is earned as a reward on all capital invested.
7. Percentage figures reflect correctly the "percent" made on sales.

B. The difference between mark-up and margin

1. Mark-up is a percentage of cost of merchandise
2. Margin is a percentage of sales

- C. What happens when margin and mark-up are confused?
Your profits suffer.

For example: An item costs \$1.20 and you want to make a gross profit of 20 percent:

Multiply	\$1.20 cost
by20 percent representing margin
	\$.2400

To	\$1.20
Add.....	.24
	\$1.44 selling price

This may seem right, but work it backward, remembering that what you are after is a 20 percent margin on sales:

Multiply.....	\$1.44 selling price
by20 percent representing margin
	.2880 (or 29¢) margin

From	\$1.44 selling price
Subtract.....	.29 margin
	\$1.15 (which is 5¢ less than the \$1.20 cost)

Something is wrong. Notice that 20 percent of the selling price gives 29¢ as the difference between cost and selling price, and that 20 percent of the cost price gives only 24 cents. This difference of 5¢ on every \$1.50 (approximately) worth of merchandise sold would mean a loss of \$1700.00 on a yearly business of \$50,000. Many merchants fail to make a profit because they figure their selling price this wrong way.

D. Figuring margin on selling price by simple arithmetic:

Example: Item costs \$1.20 and a margin of 20 percent is desired.

The selling price always equals... 100 %
 Margin desired..... 20 %
 Cost of goods is therefore..... 80 % of selling price

To find selling price, find 1/80 of cost by dividing 80 into 1.20 and multiply by 100.

$$\begin{array}{r} 1.5 \times 100 = \$1.50 \\ 80 \overline{) 1.20} \\ \underline{80} \\ 400 \\ \underline{400} \end{array}$$

\$1.50 is the sales price of a commodity costing \$1.20 and retailed at a margin of 20%.

To prove the problem -

What is 20% of \$1.50

Ans. .30¢

Subtract .30¢ from selling price

$$\begin{array}{r} 1.50 \\ - .30 \\ \hline 1.20 \text{ cost} \end{array}$$

IV. Margin in dollars and cents -

Some grocers establish a minimum margin in cents per pound to guard against losses due to excessive handling, packaging, etc.

V. Pricing devices

Slide rule or wheel. Demonstrate and teach use. (A goodly number of kinds and varieties of slide rules and pricing wheels have been passed out to the trade from time to time. Experience has found that they are not used because most retailers either do not understand them or do not appreciate their utility).

VI.

Handy Table
To Determine Selling Price From Cost

<u>For Markup of</u>	<u>Divide Cost by</u>
50% of sales	1 and add to cost
33 1/3%	2 and add to cost
25%	3 and add to cost
20%	4 and add to cost
16 2/3%	5 and add to cost

Example: For 33 1/3% markup

2/ .50	Cost
.25	
.75	Selling Price

VII. Pound or Piece Pricing

- A. Pricing by piece is more common,
however
Pricing by weight is gaining in favor.
- B. Advantages of pricing by weight -
 1. Win extra sales by letting customer know she is getting full value.
 2. The pound is not variable - the customer knows exactly what she is going to get.
 3. The last customer gets a fair break.
 4. It reduces customer handling.
 5. Small sizes sell faster
- C. How to determine price per pound -
 - Step 1. Weigh each crate and subtract tare to get exact weight of commodity being trimmed. *
 - Step 2. Divide this weight into total monetary return desired for crate of produce to get price per pound to be charged.

* With lettuce, celery, cabbage, cauliflower and other items which are usually trimmed for retail sale, consideration will need to be given to the "trimmed weight."

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

REPORT OF THE
COMMISSIONERS OF THE
UNIVERSITY OF CHICAGO
ON THE
PROGRESS OF THE
PHYSICS DEPARTMENT
DURING THE
YEAR 1900-1901

PRESENTED TO THE BOARD OF TRUSTEES

AT THE ANNUAL MEETING

Held at Chicago, Ill., June 10-12, 1901

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